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**DOCKET**

**06-AFP-1**

DATE May 19 2006

RECD. May 22 2006

May 19, 2006

California Energy Commission  
Docket Unit  
Attn: Docket No. 06-AFP-1  
1516 Ninth Street, MS-4  
Sacramento, CA 95814-5512

**Re: Informational Proceeding and Preparation of the State Plan to Increase the Use of Alternative Transportation Fuels – Docket No. 06-AFP-1**

The Western States Petroleum Association (WSPA) is pleased to submit comments on the recently released CEC Committee Scoping Notice for the State Plan to Increase the Use of Alternative Transportation Fuels (State Plan).

WSPA's 26 member companies are engaged in the exploration for, production, refining, transportation and marketing of a variety of energy and transportation fuels products. Many aspects of the State Plan deal directly with our business interests. As a result, WSPA has provided extensive testimony and comments in past proceedings on the development of the 2003 and 2005 Integrated Energy Policy Reports (IEPR) that have dealt with alternative fuels.

We hope the schedule for this proceeding will permit a meaningful exchange of information and ideas. We believe the process should be open and provide enough time for the affected stakeholders to thoughtfully consider any draft documents or proposals in order to provide valuable input.

WSPA believes it will be important for the Commission to advance the Governor's goals, as expressed in his August 2005 letter to the legislature. Those goals aim to ensure adequate, reliable and affordable energy supplies while promoting renewable energy and advancing technology to improve California's economic and environmental conditions. Our industry agrees that it will be critical to the state's future for all Californians to have access to adequate, reliable and affordable energy supplies.

We believe that this effort to develop California's Alternative Fuels Plan is an important process and that it is imperative to get it right. What we collectively choose to do here will guide California's economic future. However, with a schedule that calls for a report by December, this is a relatively short amount of time to do what needs to be done. We believe that an ongoing process that allows for constant interaction and dialogue with and by all the stakeholders is essential -not only for the development of the Plan but for the implementation of the Plan.

Therefore, WSPA recommends that the CEC create a collaborative process where a named stakeholder group of qualified participants from agencies, industries and the public helps you evaluate and recommend appropriate steps for the State to take to achieve the fuel diversity and other alternative fuel goals. The collaborative would provide input on the alternative fuel diversity and goals, and review and comment on the AB 1007 Plan.

We also envision an ongoing effort where the collaborative would provide input on such things as the identification and evaluation of R & D opportunities, demonstration projects and public/private partnership opportunities and other incentives to help achieve the state's fuel diversity goals and ensure public policy stability.

As we have noted during previous IEPR discussions, WSPA is concerned with the methods that have been proposed to date to achieve these goals. Many of the new policies and specific measures, in particular mandates and subsidies, may have cost implications and unintended consequences that need to be further investigated and disclosed. They may also undermine existing flexibility in the transportation fuel system, and create complications in meeting federal programs and obligations.

We believe many of the policies being proposed will have negative impacts on the State's economy. WSPA highlighted these concerns in the attached letter submitted to Commissioner Desmond dated April 26, 2006 in response to the initiation of the 2007 IEPR process.

One of the challenges we face is how the state is going to deal with conserving and developing energy resources in California or for the California market. Specifically, we are referring to preserving our state's existing oil and gas production and petroleum infrastructure, and allowing for the development of additional petroleum feedstocks and products, and new alternative and renewable fuels.

We support feasible and market-driven alternative energy supplies, along with a diversified energy portfolio, but believe ALL transportation fuel supplies will be needed in the future. Therefore, the promotion of alternative fuels to the exclusion of the base petroleum fuels is not good public policy.

WSPA is encouraged by language in the scoping notice that states, "...the Energy Commission does not intend to pick "winners" and "losers." Instead AB1007 provides a comprehensive framework for the state to ensure that all fuel and technology options are given an opportunity to compete in the California transportation market."

We understand the scoping notice is intended to provide a roadmap for how the CEC will respond to the legislative requirement in AB 1007 that dictates the Commission joins with multiple state agencies to prepare a plan to increase the use of alternative fuels in California. We are looking forward to interacting with the agencies during the public workshops and hearings, that the notice indicated would be held to receive stakeholder input.

WSPA offers the following comments on the content of the scoping notice:

- We support the concept of evaluating alternative fuels on a full fuel-cycle basis, as well as doing a market assessment, and evaluating economic impacts alongside environmental benefits. Based on previous iterations of the AB2076/IEPR process, however, we believe the study must be objective and transparent.

WSPA feels some of the assumptions and methodologies developed by previous consultants were either not very complete or balanced, or they were absent from the documentation provided to the public for review and comment. We encourage the CEC to ensure that this proceeding is scientifically sound, and that the full fuel-cycle assessments, and economic and market assessment analyses are conducted openly and objectively.

In pursuit of this recommendation, we urge the Commission to direct staff to hold full forum workshops on both the development of and draft versions of the full fuel-cycle and economic analyses. Furthermore, before final versions of any fuel-cycle analyses are adopted, there should be a scientific peer review of the final draft analyses by a contractor(s). The collaborative that we previously mentioned could assist in the selection of the contractor(s) so all parties buy-in to the peer review process upfront. Recommendations provided by the peer review should be incorporated into the final analyses and report.

- WSPA is concerned about the section of the scoping notice that discusses the definition of alternative fuels. First, although AB1007 evidently provided a set definition of “alternative fuel,” the background to the scoping notice indicates you “also will examine the broader suite of alternative fuels that could benefit California’s transportation market.”

We support the CEC’s proposed broader definition of alternative fuel, including petroleum fuel blended with non-petroleum constituents and the inclusion of liquefied petroleum gas (LPG) and liquid fuels derived from natural gas, biomass, coal, and petroleum coke. However, we also request you include other fuels that were not mentioned in AB1007, such as renewable diesel (a diesel fuel substitute produced from non-petroleum renewable feedstocks). This fuel has environmental and energy benefits, and should be considered as part of the suite of fuels in the State Plan.

- We are pleased to note the CEC has recognized that the use of some alternatives may result in an overall increase of certain criteria pollutants that raise public health concerns and constrain the state’s ability to meet its State Implementation Plan (SIP) requirements. We support the harmonizing of transportation energy and air quality policies and objectives.

The report should clearly develop a process by which proposed actions are evaluated on how they impact these many laudable goals. The most direct, efficient, and legitimate means to assure California’s pollution control programs are not compromised is to require all fuels to meet the standards in place, which are defined by vehicle category.

- WSPA supports the market penetration goals for alternative fuels, but without mandates and subsidies. WSPA companies have, to date, invested billions of dollars in R&D and commercialization of alternative fuels and technologies. We also currently incorporate close to one billion gallons of ethanol each year in California’s Cleaner Burning Gasoline. Our industry believes sustainable, economically feasible bio-fuels and alternative fuels will be a key part of the long-term solution to our energy challenges.

However, WSPA opposes efforts to recommend or adopt mandates or quotas, as well as subsidies (as opposed to incentives) for alternative fuels in the State. Mandates or subsidies that ignore the imperatives of markets, or support activities that are not eventually sustainable without them, or meet the genuine needs and expectations of consumers, are hidden taxes.

Several points in the scoping notice mentioned that the State Plan effort will include recommendations to ensure alternative fuel goals are attained, including “requirements, financial incentives, and other policy mechanisms...” The imposition of new controls, new or expanded mandates, allocation schemes, new taxes on industry, or other obstacles are counterproductive to an efficient and competitive transportation fuel supply system.

In conclusion, WSPA advocates a strong base of petroleum fuels and supports the further development of advanced technologies and the use of alternative transportation fuels as long as they are scientifically sound, technically feasible, sustainable, and cost-effective. If the alternative fuels meet these criteria, they should be part of a consistent, integrated California energy supply strategy.

If you have any questions, please contact me. WSPA looks forward to working with the State on preparation of the State Plan to Increase the Use of Alternative Transportation Fuels.

Sincerely,

A handwritten signature in black ink that reads "Joe Sparano". The signature is written in a cursive, flowing style.

Cc: Commissioner James Boyd  
Commissioner Jackalyne Pfannenstiel